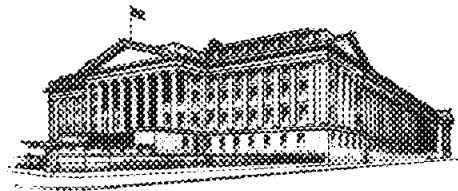


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*blueprints for* **Basic Tax Reform**

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**January 17, 1977**  
**Department of the Treasury**



## THE SECRETARY OF THE TREASURY

WASHINGTON 20220

### FOREWORD

In December 1975, in a speech to the Tax Foundation, I called for a fundamental overhaul of the U.S. tax system. I felt that I was speaking for millions of Americans who were fed up with the current tax system and wanted it replaced with one they could understand and trust. I noted that we need to return to the basic principles upon which our income tax system was founded and the three cornerstones of its structure -- equity, efficiency and simplicity. I said we need to wipe the slate clean of personal tax preferences, special deductions and credits, exclusions from income and the like, and impose a single, simple progressive tax on all individuals. In the months that have passed since that speech, I have received overwhelming evidence that this is indeed the way the American people feel.

It is time to start over from scratch and develop a new tax system in the United States. It must be a system that is designed on purpose, based on a clear and consistent set of principles, which everyone in the United States can understand.

During the past year, at the same time my staff and I were working with the Congress on the Tax Reform Act of 1976, we were also engaged in a major study, which we called the "Basic Tax Reform" study. We began by examining the concept of "income" and what it can and should mean as the base for Federal taxation. We looked at all the transactions and circumstances that produce what we commonly think of as "income," and we also considered "income" from the standpoint of its uses -- its value to those receiving it.

We then tried to develop an ideal income base that took into account all possible forms of income but that equally considered practical realities and the overriding importance

of a simple tax system. Our "real-world" implementation reflects many compromises and modifications that we have discussed explicitly in the study so that everyone can evaluate our judgments and our conclusions.

Our report -- Blueprints for Basic Tax Reform -- presents the results of this year-long study. It gets down to the fundamentals.


This report presents two specific model tax systems. The first is a plan for broadening the base of the income tax. It calls for integration of the corporate and personal income taxes, taxation of capital gains at full rates after allowing an adjustment for inflation, and taxing many other items that presently are not taxed. In place of the existing complex rate structure, with rates ranging from 14 to 70 percent, the model plan has only three rate brackets, ranging from 8 percent to 38 percent.

The second model is based on consumption and is called a cash flow tax. It differs from an income tax in excluding savings, although the withdrawal of savings for consumption of goods and services would be taxed. This model also has three tax brackets with rates from 10 to 40 percent. Because the present income tax system has many important similarities to the cash flow tax, the change to this model would not be as great as it might seem.

After years of seeking to reform the tax system, I am convinced that tinkering is no longer the answer. We must design an entirely new tax system, adopt it as an integrated whole, with a much broader tax base but with much lower and simpler rates so that it will be widely accepted and so that all can share its advantages. This report is a start toward this objective. It demonstrates clearly that we can construct a fair, efficient progressive tax system in the United States.

Responsibility for preparation of this study was taken by Assistant Secretary for Tax Policy Charles M. Walker. Deputy Assistant Secretary William M. Goldstein provided important counsel. Primary work on this project was undertaken

by Deputy Assistant Secretary David F. Bradford. Mr. Bradford and the staff of the Office of Tax Analysis are due special recognition for their professional expertise and special thanks for their devotion to this task.



William E. Simon

Washington, D.C.  
January 1977





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ASSISTANT SECRETARY

### ACKNOWLEDGMENTS

It is hard to imagine a project more appealing to a public finance economist than directing the professional staff of the United States Department of the Treasury in a study of income tax reform. A year ago Secretary William E. Simon asked Assistant Secretary Charles M. Walker to prepare a plan to simplify the tax system. As Deputy Assistant Secretary and Director of the Office of Tax Analysis, I was asked to lead this effort. With the publication of "Blueprints for Basic Tax Reform," the main objective of the project is accomplished, and it is my pleasure now to acknowledge the superb efforts of those who did so much of the work. The pages of the report are the product of a tremendous cooperative effort, much of it applied during evenings and weekends, by many dedicated people.

An especially important role was played by Harvey Galper, Associate Director of the Office of Tax Analysis. His experience and acumen as a tax analyst contributed directly to the project and his sense of humor and enormous capacity for work contributed indirectly by ensuring the smooth functioning of the Office. It was a delight to work with him.

Other principal associates in drafting the report were Larry L. Dildine and Eric J. Toder of the Office of Tax Analysis and Charles M. Whedbee, on loan from the Internal Revenue Service. Their analytical skills are reflected throughout the report.

Nelson McClung took principal responsibility for assembling the data base for the study, supported by J. Scott Turner, with Roy Wyscarver manning the computer simulations. Gary Robbins kept the project moving toward a sequence of unmeetable deadlines. Ron Garbin and the Office of Computer Science, Office of the Secretary, provided programming support.

The early groundwork for the study was developed with the assistance of Seymour Fiekowsky, Nelson McClung, Hudson Milner, and Ralph Bristol of the Office of Tax Analysis, and Richard Koffey, now Deputy Tax Legislative Counsel.

Many others, inside and outside the Department of the Treasury, contributed to the work. These include Peter Cook, John Copeland, Daniel Feenberg, David Flynn, Geraldine Gerardi, Gary Hufbauer, Michael Kaufman, Thomas King, Allen Lerman, Howard Nester, Gabriel Rudney, Jay Scheck, Eugene Steuerle, Walter Stromquist, and John Wilman, all members of the Office of Tax Policy Staff. Joseph Foote of Washington, D.C., Peter Mieszkowski of the University of Houston, Harvey Rosen of Princeton University, Richard Barr of Southern Methodist University, and Ann Bergsman of Hendrickson Corporation brought their special knowledge to bear on the problems we confronted. Others outside the Treasury who assisted in various ways include William Andrews, Martin Bailey, Edwin Cohen, Martin Feldstein, Frederic Hickman, Daniel Halperin, Bernard Saffran, Emil Sunley, Nicholas Tideman, and Alvin Warren.

Finally, for their unsurpassed skill, never ending patience and cheerfulness, deepest thanks to Rosalind Carter and Kathi Cambell who typed and typed and typed and ....

A handwritten signature in black ink, reading "David F. Bradford". The signature is written in a cursive, slightly slanted style.

David F. Bradford  
Deputy Assistant Secretary  
for Tax Policy (Tax Analysis)

Washington, D.C.  
January 1977